

TOWNSHIP OF GROSSE ILE
LETTER OF COMMENTS AND RECOMMENDATIONS
MARCH 31, 2004

HUNGERFORD & CO. Certified Public Accountants

A Professional Corporation

Board of Trustees
Township of Grosse Ile
Wayne County, Michigan

We have audited the financial statements of the Township of Grosse Ile for the year ended March 31, 2004. As part of our audit, we reviewed the Township's accounting procedures and system of internal control.

The objectives of an internal control system are to provide reasonable, but not absolute, assurance as to 1) the safeguarding of assets against loss from unauthorized use or disposition, 2) proper division of duties between various employees to provide a reasonable check upon transactions and, 3) the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The following comments and recommendations are presented for your consideration:

*** * * PRIOR YEAR COMMENTS * * ***

DPW - ACCOUNTS RECEIVABLE

The subsidiary listing for accounts receivable in the DPW does not agree with the general ledger. Apparently, the detail has not been reconciled to the general ledger for some time. Subsidiary ledgers should be reconciled to the ledger on a regular basis.

We again recommend that the DPW reconcile the detail accounts receivable listing to the general ledger and continue to do so on a regular basis.

FIXED ASSETS

The Township has not taken a physical inventory of fixed assets since 1977. We recommended that the Township conduct a periodic physical inventory of all property and equipment and maintain it.

This comment has more importance since the adoption of Governmental Accounting Standards Board (GASB) Statement No. 34. We recommend the following procedures:

- Establish capitalization policy (for both pre-implementation date and post-implementation date)
- Establish a useful life policy
- Establish salvage value policy
- Inventory of all capital assets at historical costs as of implementation date
- Compute net book value and depreciation expense by function as of the implementation date
- Identify long-term debt associated with capital assets (for example, the Public Safety Building Bonds are associated with the Public Safety Building)
- Have implementation valuation completed by April 1 of the year of implementation

Action Taken: With the implementation of GASB 34, during the year ended March 31, 2004, the Township took a complete physical inventory of its fixed assets.

OTHER POSTEMPLOYMENT BENEFITS

For a number of years we have commented on the Township's providing health, dental and life insurance benefits to full-time employees upon retirement. The benefits are known as "Other Postemployment Benefits," or OPEB. The Township's contributions for OPEB are currently financed on a pay-as-you-go basis.

The Government Accounting Standards Board recently issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how local governments should account for and report their costs and obligations related to OPEB. The statement generally requires that local governments account for and report the annual cost of OPEB and the outstanding obligations in essentially the same manner as they currently do for pensions. OPEB costs will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. Medium-sized governments are required to implement the requirements of Statement 45 for periods beginning after December 15, 2006, with earlier implementation encouraged.

CAPITAL PROJECT FUNDS

During our audits, we noted that budgets have not been adopted for the capital project funds for the years ended March 31, 1999 through 2003. The Uniform Budgeting and Accounting Act does not require a budget for a capital project fund. However, it does require that the budget of the Township include "an informational summary of projected revenues and expenditures of any special assessment funds, public improvement or building and site funds, including the estimated total cost and proposed method of financing each capital construction project, and the projected additional annual operating cost and the method of financing the operating cost of each capital construction project for three years beyond the fiscal year covered by the budget". Historically, the Township has prepared and adopted an annual budget for each of its capital project funds to be in compliance with this disclosure requirement.

Budgets were not established for any of the capital project funds for year ended March 31, 2004. We again recommend that a budget be established annually for all active capital projects funds.

DPW – INVENTORY

A complete physical inventory of supplies, parts and materials at the various storage facilities has not been taken in several years and there has been no change to the inventory balance on the general ledger. An inventory is required to maintain proper internal control over the items and should be taken at the end of each fiscal year.

We again recommend that the DPW establish procedures to ensure that an inventory is taken as of March 31 of each year.

*****CURRENT YEAR COMMENTS*****

FUND DEFICITS

As of March 31, 2004, the Township had accumulated fund deficits in several individual funds. The Township is in violation of Public Act 621 of 1978. In accordance with Public Act 621 of 1978, we recommend that the Township formulate deficit reduction plans and submit them to the Michigan Department of Treasury.

Action Taken: The Township's fund deficits and corrective action plans are as follows: The Open Space Fund has a deficit of \$516,697 that will be eliminated in future years as property tax collections are received. The Special Assessment District Construction Fund has a deficit of \$606,920 that will be eliminated with future bond sale proceeds. The Capital Project Improvement Fund has a deficit of \$26,358 that will be eliminated in future years as future loan reimbursements are received. The Downtown Development Authority and the Brownfield Authority have deficits of \$416,695 and \$297,305, respectively, which will be eliminated in future years as property tax collections are received.

CAPITAL PROJECT FUNDS

During the year ended March 31, 2004, there were two capital project funds that had no activity except for interest income earned on the bank accounts. As of March 31, 2004, the Grosse Ile Building Authority Construction Fund and the 1998 Special Assessment District Construction Fund had accumulated fund balances of \$90 and \$95,331, respectively. The projects for which these two funds were established have been completed.

We recommend that the assets and related fund balance in these capital project funds be transferred to the related debt service funds and the funds closed.

Action Taken: The Township will close these funds during the year ended March 31, 2005.

During the year ended March 31, 2004, the 1999 Special Assessment District Construction Fund also had no activity except for interest income earned on its bank account, which resulted in a cumulative fund balance of \$211,398 at March 31, 2004. The related project is complete. However, the Township is still anticipating a final bill of approximately \$100,000 from a vendor for the last phase of the construction work.

We recommend that the Township actively research its account status with this vendor to resolve the matter in a timely fashion. Once this issue is resolved, the assets and related fund balance in this capital project fund should be transferred to the related debt service fund and the fund closed.

SUMMARY

Record keeping procedures are fundamentally sound and reliable. The employees responsible for these functions were cooperative in answering questions and providing documentation required during our audit.

We would like to thank the Board for this opportunity to again serve as your auditors. As you know, we are available throughout the year to answer questions or work on special projects at your request.

Hungerford & Co.
September 30, 2004